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BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268–0001

PERIODIC REPORTING (PROPOSAL FOUR)	Docket No. RM2016-12

RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO QUESTIONS 1-5 OF CHAIRMAN'S INFORMATION REQUEST NO. 3
(October 5, 2016)

The United States Postal Service hereby provides its responses to Questions 1-5 of Chairman's Information Request No. 3, issued September 29, 2016. The questions are stated verbatim and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorney:

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1. Please refer to the Petition at 3-4 and the Bradley Report at 13-35. Please confirm that for each transportation account type/category (*i.e.,* INTRA P&DC, INTRA DISTRICT, etc.) the variability analyses accounts for differences in transported mail volume across multiple stops within the routes.

a. If confirmed, please indicate the percentage of routes where the volume of transported mail:

i. declines steadily over the course of the route,

ii. increases steadily over the course of the route,

iii. decreases on a part of the route and increases on another part of the route, or

iv. follows patterns that are different from those described in i-iii above.

b. If not confirmed, please describe:

i. obstacles that prevent incorporating such changes in mail volumes into the analysis, and

ii. why accounting for such changes is not relevant.

RESPONSE:

a. Confirmed. The Postal Service does not have estimates of the percentages requested in parts i. through iv. The current highway network is massive and has over 120,000 trips operating daily. There are routes within every account category that fall into the scenarios posited in i.-iv. The Postal Service can provide, in general terms, examples of types of routes that follow the various patterns from parts i.-iv. In addition, it is important to note that TRACS takes samples at all types of stops along all types of routes.

i. Two examples of routes where volume generally declines over the course of the route can be provided. First, morning routes that travel from a plant to a series of delivery

units (normally in the Intra-SCF category) usually experience declining volumes over the course of the route, as the purpose of the run is to drop off mail at the delivery units. Second, routes from Surface Transfer Centers (STCs) to plants (normally in the Inter-SCF category) usually experience volume declines over the course of the route, as the primary purpose of the route is to transport mail from the STC to its destination for further processing.

ii. Three examples of routes where volume usually increases over the course of the route can be provided. First, analogous to the example cited in the response to part i., afternoon routes (normally in the Intra-SCF category) between a series of delivery units and a plant usually experience volume increases along the route, as the purpose of these routes is pick up collection mail from the delivery units and transport it to the plant for processing. Second, plant to plant routes (normally in the Inter-SCF category) may make several local stops and then travel a long distance to their destination plant. These usually experience volume increases over the course of the route by adding volume at each local stop. Third, Inter-NDC routes that begin by picking up mail at local facilities before traveling to the destination NDC usually experience volume increases over the course of the route.

iii. The examples provided in parts i. and ii. have another commonality beyond potentially uniform volume trends over the course of their routes. They have a single primary purpose. Routes with multiple purposes often encounter volume declines on some portions and volume increases on other portions. For example, a local route (normally in the Intra-SCF category) leaving from a plant may begin by dropping off mail

at a series of Delivery Units (DUs), but then pick up mail dropped off by a large mailer at an Associate Office (AO). Under this scenario, the volume decreases on the first part of the route, but subsequently increases on the later part of the route.

iv. Routes also exist where volume remains constant during the route. A long-distance Inter-NDC route from one NDC to another NDC is an example of this type of route.

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2. The Bradley Report at 15 provides a table with average values by contract type and year from TRACS data.

a. Please explain how differences in the highway transportation contracts were incorporated into the variability analysis.

b. Considering a typical highway transportation contract, please indicate:

i. the typical duration of the contract,

ii. whether the contract, a priori, sets the routes and stops on the routes,

iii. whether the contract specifies the capacity of the vehicle to be used on each route, and

iv. whether any changes to the parameters of the contract are permitted and why (including but not limited to those described in i-iii above).

RESPONSE:

a. In Dockets Nos.R87-1, R97-1, R2000-1 and RM2014-6, the Commission-approved methodology incorporated differences in transportation contracts by estimating separate variability equations for the different account categories. That Commission-approved approach was followed in the current analysis, which also estimates separate variability equations by account category.

b. i. Highway contracts are typically procured for four-year terms.

ii. Yes. Highway contracts operate with defined routes and the stops to be made along the route.

iii. Yes. Highway contracts specify the capacity of the vehicle to be used on each route.

iv. Yes, changes are permitted. Changes can be made to the type of vehicle or to the frequency, based on service or other operational needs.

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3. Please confirm that to determine capacity to be provided on a specific route, the Postal Service accounts for variations in volumes of transported mail by day of the week, by season, and/or for random fluctuations in volumes due to other factors.

a. If confirmed, please:

i. explain how such variations in mail volumes affect the capacity of trucks provided for transporting mail on a specific route (or by transportation type), and

ii. describe all factors taken into account.

b. If not confirmed, please explain why the Postal Service does not account for variations in the transported mail volumes when it determines the required capacity.

RESPONSE:

Confirmed.

a. i. The Postal Service uses cubic feet of mail volume to be transported, along with other factors like service standards, to determine the amount of capacity required on a route. If the amount of mail volume to be transported rises between facilities, the Postal Service will increase, to a certain degree, the capacity on the route that serves those facilities. The additional capacity is normally achieved by setting a higher frequency (additional trips) for the route rather than utilizing a different size vehicle. To the extent possible, daily volume variations are taken into account by adjusting the frequency of the route schedule by day of week.

a. ii. In addition to the mail volume transported and service standards, capacity on a route may be influenced by mail processing requirements. The ability to efficiently move mail within "transportation windows" between facilities is an example of a mail processing factor that affects the surface capacity purchased by the Postal Service. A

"transportation window" is a time interval between the "clearance time" set by the origin facility and the "critical entry time" set by the destination facility. The surface transportation network must be designed in a manner that ensures that mail volumes can be transported between postal facilities within certain "transportation window" periods of time so that the mail can be processed and delivered in accordance with the applicable service standards. The "clearance times" and "critical entry times" set by the processing facilities and the distance between those postal facilities impact the Postal Service's decisions regarding the surface capacity it purchases to transport mail between facilities.

b. Not applicable.

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4. Please confirm that the Postal Service arranges for purchased highway transportation on a short-term or emergency basis.

a. If confirmed, please indicate:

i. whether such contracts were incorporated into the variability analysis performed in the current docket (if not, please explain why not),

ii. whether such contracts were incorporated into the variability analysis performed in Docket No. RM2014-6, Proposal Six (if not, please explain why not),

iii. the frequency and typical duration of such contracts, and

iv. the circumstances under which these contracts occur.

b. If not confirmed, please explain why not.

RESPONSE:

Confirmed.

a.i.-iv. The Postal Service can arrange for two types of short-run purchases of highway transportation: exceptional service and emergency contracts. They differ in their characteristics, and the names can be a bit misleading. Exceptional service is extremely short term, and arises through unscheduled trips on existing contracts. This type of additional service is to remedy short-term transportation emergencies like a truck break down, and is ordered on an as-needed basis. Because exceptional service is different from regularly scheduled transportation, exceptional service costs are accrued in their own separate cost pools by account category, and under the approved Commission methodology, they are assumed to be 100 percent variable with volume. Because it is not part of regular transportation, exceptional service is not included in the approved Commission methodology in estimating cost-to-capacity variabilities as in

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Docket No. RM2014-6, and is therefore not included in the variability analysis included in the current docket.

Emergency contracts, on the other hand, provide the same type of service as regular contracts, but differ in the contracting procedure used to put the contract in place. Emergency contracts can last as long as six months. An example of the need for an emergency contract would be the death of a highway transportation sole proprietor, terminating service on a regular contract. The service that had been provided on the initial regular contract would stay the same, but the regular contract would be replaced with an emergency contract with another provider. Eventually, the emergency contract would be replaced with a new regular contract.

In Docket No. RM2014-6, the data required to estimate the variability equations were obtained from Postal Service's Transportation Contract Support System (TCSS). TCSS is used to manage highway transportation requirements for contracts and payment processes, so it was straightforward to obtain information on emergency contracts despite the very small amount of transportation they provide. As a result, such contracts were incorporated in the data used in the variability analysis. To provide a sense of the amount of transportation provided by emergency contracts, the following table provides the accrued costs, by account category, for regular and emergency contracts in FY2015.

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Account Type	Account Number	FY 2015 Accrued Dollars (Thousands)	Account Proportion
Intra P&DC Regular	53601	$1,089,518	98.3%
Intra P&DC Emergency	53603	$18,745	1.7%
Intra CSD Regular	53605	$433,662	99.4%
Intra CSD Emergency	53607	$2,535	0.6%
Inter P&DC Regular	53609	$117,070	99.2%
Inter P&DC Emergency	53612	$983	0.8%
Inter Cluster Regular	53614	$217,650	99.8%
Inter Cluster Emergency	53616	$397	0.2%
Intra Area Regular	53618	$683,932	99.1%
Intra Area Emergency	53621	$6,390	0.9%
Intra BMC Regular	53127	$268,799	99.2%
Intra BMC Emergency	53129	$2,079	0.8%
Inter BMC Regular	53131	$344,482	99.8%
Inter BMC Emergency	53133	$702	0.2%
Total Regular		$3,155,113	99.0%
Total Emergency		$31,832	1.0%

TRACS is the source of data for the current analysis, and TRACS is a sampling system which requires choosing truck trips to be sampled. Because emergency contracts are short-lived and there is so little transportation provided under emergency contracts, it is not feasible for TRACS to include such contracts in its sampling frame. Thus, the current analysis does not include data from emergency contracts.

b. Not applicable.

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5. Please confirm that trucks transporting mail under purchased transportation contracts with the Postal Service do not simultaneously transport any other goods for customers. If not confirmed, please indicate:

a. the percentage of contracts that transport goods and mail at the same time, and

b. any changes in the percentage/existence of such contracts over the 6-year period covered by the variability analysis in the Bradley Report.

RESPONSE:

Not confirmed. The vast majority of highway transportation contracts do prohibit the carriage of letters or goods outside the mail. A very limited number of exceptions, however, exist in remote areas of the country. This limited number of exceptions has not seen a significant increase in recent years.